

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 3347-01  
BILL NO.: HB 1459  
SUBJECT: Insurance-Medical; Revenue Dept.; Taxation and Revenue-General-Income  
TYPE: Original  
DATE: January 26, 2000

---

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue		(\$151,101,721) to (\$248,801,721)	(\$156,001,773) to (\$258,701,773)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$50,624)</b>	<b>(\$151,101,721) to (\$248,801,721)</b>	<b>(\$156,001,773) to (\$258,701,773)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

---

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials of the **Department of Revenue (DOR)** state this legislation authorizes a deduction from Missouri adjusted gross income for documented health insurance premiums and out-of-pocket medical costs, to the extent such amount is included in the taxpayer's federal adjusted gross income and is not otherwise deducted. The amount of the credit is equal to the amount paid by the individual, not to exceed \$2,000.

The number of taxpayers eligible for this deduction is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 180,000 returns filed with this deduction and one tax season employee for every 3,000 pieces of correspondence generated from this credit. One Tax Processing Tech I will also be needed for every 30,000 income tax errors generated.

This legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$41,617. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs and \$1,673 for on-going costs.

**Office of Administration (COA)** officials stated this proposal would have both a health insurance deduction and an out-of-pocket medical expense deduction.

### **HEALTH INSURANCE DEDUCTION:**

COA officials state that \$4,205,036,928 in health insurance premiums were written in Missouri in FY 1998 per the Department of Insurance. COA states that according to Table 168 in the 1998 Statistical Abstract, 27.15% of health insurance premiums are paid by individuals. COA assumes that taxpayers would not adjust their withholdings in FY 2001 to take advantage of this credit. Based on data from Oversight it was assumed that 15% of all premiums paid by individuals are run through cafeteria plans and are not included in federal adjusted gross income. Therefore, the amount of premiums paid by individuals is lowered by 15%. COA assumes a 3% annual growth. COA estimates that revenue would be reduced by \$0 in FY 2001, \$65.5 million in FY 2002, and \$67.5 million in FY 2003.

ASSUMPTION (continued)

**OUT-OF-POCKET MEDICAL EXPENSE DEDUCTION:**

COA states the out-of-pocket medical cost per capita from the Health Care Financing Administration's Health Care Expenditures Projections to be \$822 in FY 2001 and \$864 in FY 2002. COA states that based on Missouri individual income tax data the number of people per return for each type of return was calculated to arrive at a per capita figure. COA states this number was then multiplied by the per capita out-of-pocket medical cost to arrive at a state wide out-of-pocket expenditure. Based on data from Oversight it was assumed that 15% of all premiums paid by individuals are run through cafeteria plans and are not included in federal adjusted gross income. Therefore, the amount of premiums paid by individuals is lowered by 15%. COA assumes a six percent marginal tax rate. COA assumes the amount deducted would be ranged from fifty percent participation to one hundred percent participation. COA estimates that revenue would be reduced by \$0 in FY 2001, \$97.7 million to \$195.4 million in FY 2002, and \$102.7 million to \$205.4 million in FY 2003. COA further states that after discussions with the Department of Revenue, it is assumed that this would not be an itemized deduction but a subtraction from adjusted gross income which could be taken by itemizers or non-itemizers.

COA states that in FY 2002, approximately 278,000 returns would be over the cap by approximately \$724 for a total of \$12.1 million. Therefore, the estimate is increased by this amount. In FY 2003 approximately 278,000 returns would be over the cap by approximately \$849 for a total of \$14.7 million. Therefore, the estimate is increased by this amount.

The out-of-pocket medical expense deduction projection was based on data provided by the Health Care Financing Administration. **Oversight** determined the projections for the out of pocket medical cost per capita increased from \$802 to \$864 for FY 2002.

**This proposal would result in a decrease in Total State Revenues.**

FISCAL IMPACT - State Government

FY 2001  
(6 Mo.)

FY 2002

FY 2003

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
<b>GENERAL REVENUE FUND</b>			
<u>Loss to General Revenue Fund</u>			
Deduction health insurance premiums	\$0	(\$65,500,000)	(\$67,500,000)
Deduction for out-of-pocket medical expenses	\$0	(\$85,600,000) to (\$183,300,000)	(\$88,500,000) to (\$191,200,000)
<u>Cost - Department of Revenue</u>			
Reprogramming costs	(\$50,624)	(\$1,721)	(\$1,773)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$50,624)</u></b>	<b><u>(\$151,101,721)</u> to <u>(\$248,801,721)</u></b>	<b><u>(\$156,001,773)</u> to <u>(\$258,701,773)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill allows an individual income tax deduction for insurance premiums and out-of-pocket medical costs paid by a taxpayer up to \$2,000 per tax year. The deductible amount is only to the extent that the costs are included in a taxpayer's federal adjusted gross income. Out-of-pocket medical costs are those deductions allowed for health costs as a federal itemized deduction. The deduction will apply to tax year 2001 and ends after tax year 2005.

DESCRIPTION

L.R. NO. 3347-01  
BILL NO. HB 1459  
PAGE 5 OF 5  
January 26, 2000

(Continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "e" at the end.

Jeanne Jarrett, CPA  
Director  
January 26, 2000